

**DEPARTMENT OF HOUSING
AND COMMUNITY DEVELOPMENT**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2009**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Department of Housing and Community Development, found:

- proper recording and reporting of all transactions, in all material respects, in the agency's Fiscal Management System and in the Commonwealth Accounting and Reporting System;
- certain matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDING AND RECOMMENDATION

Continue Improving Fiscal Monitoring of Subrecipients

The Virginia Department of Housing and Community Development (Housing) disburses nearly 90 percent of its funding to subrecipients to administer as many as 16 federal programs. Housing provides guidance and monitors these subrecipients. Our review found Housing needed to improve its federal grants management, specifically its subrecipient monitoring.

With the passage of the American Recovery and Reinvestment Act (Act) in February 2009, Housing will need to increase the focus on several of Housing's grants, including the Weatherization Assistance Program (Weatherization). The Federal Government has identified Weatherization as a high-risk program due to the significant increase in funding and lack of grantees' capacity to manage these funds.

During our review of Weatherization, we noted that Housing was not conducting timely financial reviews of subrecipients. Housing must review financial records and files for each of the 22 local Weatherization providers, including their federally required Single Audits. Housing did not conduct financial reviews of the local providers for at least six months during fiscal year 2009 because of staffing and personnel issues.

Beginning in fiscal 2010, Housing will use a portion of its stimulus funding to employ a position responsible for conducting fiscal reviews within its Division of Housing. In addition, Housing also recently assigned the review and tracking of Single Audits to another individual within the same division. This employee is working through Single Audits that Housing had not yet reviewed, and is tracking each provider's compliance, findings, and corrective action plans.

Housing should work to identify its critical processes and corresponding internal controls, and should document policies and procedures to support these controls. This will ensure that Housing is conducting adequate fiscal monitoring for its entire federal grant program that is in accordance with and meets the expectations set by the federal government.

WEATHERIZATION ASSISTANCE PROGRAM

In March 2009, the federal Department of Energy announced that the American Recovery and Reinvestment Act (ARRA or the Act) included nearly \$8 billion for state and local weatherization. As part of this funding, Virginia should expect to receive more than \$94 million in Weatherization Assistance Grant funds over the three-year life of the Act, a roughly 400 percent annual increase in funding over the current program funding.

Funding Sources for Weatherization Services – Fiscal Years 2007 through 2009

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Weatherization Assistance Program	\$ 4,238,138	\$ 4,142,381	\$ 4,005,041
ARRA Funding for Weatherization	-	-	2,536,529
Low-Income Home Energy Assistance	<u>6,820,679</u>	<u>7,046,473</u>	<u>10,879,070</u>
Total	<u>\$11,058,817</u>	<u>\$11,188,854</u>	<u>\$17,420,640</u>

Source: Commonwealth Accounting and Reporting System

The table above shows the funding trend for the Weatherization Assistance Program over the last three fiscal years. The table includes Low-Income Home Energy Assistance Program (LIHEAP) funds because Housing must transfer 15 percent of the federal LIHEAP funds from the Department of Social Services to support the Weatherization Assistance program. Housing's weatherization expenses increased by \$6.2 million in 2009. This was primarily due to a \$3.8 million increase in LIHEAP funding and an initial drawdown of \$2.5 million in stimulus funds. As we discuss later, Housing passed most of this initial funding from the Act to its local agency providers so they could increase their capacity to weatherize more homes.

Before fiscal 2009, Housing's total annual weatherization expenses were about \$11 million. Beginning in fiscal 2010, Housing will have access to roughly \$62.9 million in stimulus funding. Upon meeting certain benchmarks established by the Department of Energy, Housing should have access to an additional \$28.7 million.

The Weatherization Assistance Program provides federal funds to states and local governments to reduce the heating and cooling costs for low-income families and to ensure their health and safety. The program provides repairs and improvements to home heating and cooling systems, and provides for the installation of energy-saving measures in the house.

Housing administers the Weatherization Assistance Program for Virginia by passing federal funds to 22 local agency providers. These local providers, which include Area Agencies on Aging and other non-profit entities, are the providers of weatherization services. The following table details the amount of funding each local provider received in fiscal 2009.

Transfer Payments to Local Agency Providers – Fiscal Year 2009

Community Housing Partners Corporation	\$ 2,850,329
Elder Homes Corporation	1,732,532
Southeastern Tidewater Opportunity Project (STOP)	1,524,629
Total Action Against Poverty (TAPP) of Roanoke	1,304,954
Community Energy Conservation Program	986,269
Central Virginia Area Agency on Aging	772,964
Bay Aging	709,752
H.O.P.E., Inc.	670,452
Rappahannock Area Agency on Aging	633,432
Rural Areas Development Association	629,276
Crater District Area Agency on Aging	575,199
Lynchburg Community Action Group	572,808
Tri County Community Action Agency	533,398
Eastern Shore Area Agency on Aging	490,334
Telamon Corporation	480,854
PEOPLE Incorporated of Virginia	458,311
Rooftop Of Virginia	432,719
Mountain Community Action Program	397,205
Williamsburg – James City County Community Action	363,729
Pittsylvania County Community Action Agency	363,650
Support to Eliminate Poverty (STEP) Inc.	288,138
<u>Clinch Valley Community Action Agency</u>	<u>269,676</u>
Total	<u>\$17,040,610</u>

Source: Commonwealth Accounting and Reporting System

Housing assigns each local provider a geographical area, within which the individual local provider must operate the Weatherization Assistance Program. The map shown in Appendix A shows the geographical area covered by each local provider.

Housing used stimulus funds in fiscal 2009 to provide seed money to the 22 local agency providers. The local providers used the initial funding to increase the size of their workforces, train their new employees, and to purchase additional materials.

In addition to the increase in actual funding, the Act also made changes in program requirements. The program will now allow an average investment of up to \$6,500 per home in energy efficiency upgrades (up from \$3,500), and will be available for families making up to 200 percent of the federal poverty level – or about \$44,000 a year for a family of four in Virginia.

Housing advertises the Weatherization Assistance Program on its state website and provides contact information for each local provider. Once an applicant contacts one of the local providers, the local provider determines if the applicant meets income eligibility guidelines. After the local provider determines income eligibility, a date is scheduled with the applicant for an energy audit. A local energy auditor conducts an audit of the applicant’s home. The local provider uses the audit to identify the best energy-saving measures that are cost effective, healthy, and safe. Typical weatherization services include those listed on the following page.

- Sealing air leaks with insulation, caulking, and weather-stripping
- Installation of ventilation fans
- Repairing drafty duct systems
- Repairing and replacing inefficient or unsafe heating and cooling systems
- Installation of energy efficient lighting

The Weatherization Assistance Program also checks for health and safety risks, including testing for carbon monoxide levels and installing fire alarms where necessary. Recipients are also educated about proper use and maintenance of all installed systems.

The local provider then submits summary level data of their expenses, which Housing reimburses. A Housing employee conducts performance reviews of all 22 providers annually. Through fiscal 2009, the review included 10 percent of each local provider's weatherized homes. The Housing employee reviews eligibility documentation to ensure all of the Weatherization applicants meet federal eligibility requirements. The employee then performs site reviews at the corresponding units to determine if local providers completed weatherization services adequately and in accordance with program guidelines.

Beginning in fiscal 2010, as allowed by the Department of Energy, Housing will reduce the percentage of cases reviewed at each local provider to five percent of their total clients in response to the increased number of homes that will be weatherized with stimulus funding. In addition to the program review, Housing will hire a position to conduct fiscal reviews of each local provider.

AGENCY HIGHLIGHTS

Housing administers programs to improve housing, encourage community development, and ensure compliance with the Commonwealth's building code. Major areas of responsibility include community development, community revitalization, affordable housing, homelessness assistance, building and fire safety, and rural development. Housing receives most of its funding through federal grants and the General Fund, and transfers a large portion of these funds to subrecipients, such as localities and nonprofit organizations, to administer its programs.

The nearly \$20 million difference between Housing's Final Budget and actual expenses is primarily due to a \$9.7 million variance in general fund expenses, and a \$4.6 million difference between budgeted stimulus funding and actual expenses. The general fund variance is primarily due to the carryover of funds for several construction grants. The variance in stimulus funding occurred because Housing knew it was going to receive stimulus funds for the Weatherization Assistance Program, but the Department of Energy was only able to provide an estimate of the amount of funding. As such, Housing overestimated its budget to ensure that it would be able to spend any federal stimulus funds it received in fiscal 2009.

Budget and Expense Analysis Fiscal Year 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 44,541,138	\$ 52,263,816	\$ 42,602,514
Special revenue funds	3,051,890	3,901,890	3,037,848
Dedicated special revenue	7,400,000	7,424,222	4,594,028
Federal fund	61,061,174	63,834,174	61,874,276
<u>ARRA funding</u>	<u>-</u>	<u>7,179,711</u>	<u>2,536,529</u>
 Totals	 <u>\$116,054,202</u>	 <u>\$134,603,813</u>	 <u>\$114,645,195</u>

Source: Chapter 879 of the Appropriation Act and Commonwealth Accounting and Reporting System

In fiscal year 2009, transfer payments to subrecipients accounted for 89 percent of Housing's expenses, and personal services accounted for about seven percent of total expenses. Combined, Housing's other four activities accounted for only four percent of all expenses.

Expenses by Activity Fiscal Year 2009

	<u>Expenses</u>	<u>Percent</u>
Payments to Subrecipients	\$101,831,614	89%
Personal Services	8,042,335	7%
Other	<u>4,771,246</u>	<u>4%</u>
 Total	 <u>\$114,645,195</u>	 <u>100%</u>

Source: Commonwealth Accounting and Reporting System

Six service areas drive the agency's organization and activities: Housing Assistance Services, Community Development Services, Economic Development Services, Administrative and Support Services, Regulation of Structure Safety, and Government Affairs Services. Together, Housing Assistance Services, Community Development Services, and Economic Development Services account for nearly 97 percent of the agency's expenses.

Expenses by Service Area for Fiscal Year 2009

	<u>Expenses</u>	<u>Percent</u>
Housing Assistance Services	\$ 50,331,261	44%
Community Development Services	43,781,952	38%
Economic Development Services	14,570,057	13%
Administrative & Support Services	2,984,550	3%
Regulation of Structure Safety	2,616,642	2%
Governmental Affairs Services	<u>360,733</u>	<u>< 1%</u>
	<u>\$114,645,195</u>	<u>100%</u>

Source: Commonwealth Accounting and Reporting System

Housing Assistance Services

The Division of Housing manages Housing Assistance Services, which provides affordable housing opportunities through the administration of state and federal grants. These grants provide funding, training, and technical assistance. Listed below are two of the Division's larger grants, not including the Weatherization Assistance Program, which was covered previously in this report.

- The HOME Investment Partnership Program: is a multi-purpose, federally funded grant with fiscal year 2009 expenses over \$15.2 million. This program seeks to expand the supply of decent and affordable housing for low- and very low-income individuals by implementing strategies and providing financial and technical assistance to participating localities.
- Temporary Assistance for Needy Families (TANF): provides assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; and encourage the formation and maintenance of two-parent families. Housing is utilizing these grant funds through their Child Services Coordinator Grant program. This program addresses the specific needs for health care, mental health, and educational needs of homeless children who are located in either emergency shelters or transitional housing programs. Housing's expenses for TANF totaled \$4.9 million in fiscal year 2009.
- Emergency Shelter Grants Program: provides funding for facilities that offer emergency shelters. This program supports the operational, administrative, and supportive services for these facilities. Expenses for this program area reached about \$1.7 million in fiscal year 2009.

Community and Economic Development Services

The Division of Community Development manages both the Community and Economic Development Services, which support various grants and activities designed to address a broad range of community and economic development needs, and to enhance economic vitality in communities. Listed below are the two largest grants within this division.

- The Community Development Block Grant: is the Division of Community Development's largest federally funded grant with fiscal year 2009 expenses totaling over \$21.6 million. This grant helps develop communities by providing a suitable housing and living environment, eliminating blighted conditions in deteriorated areas, and creating job and business opportunities for low- to moderate-income persons. Specific activities include acquisition of real property, and rehabilitation, relocation, and demolition of homes and buildings.

Administrative and Support Services

The Division of Administration provides departmental and administrative support services. These services include computer services, financial management of grants, personnel services, budgeting, research, procurement, and processing financial transactions.

Regulation of Structure Safety

The Division of Building and Fire Regulation administers the service area Regulation of Structure Safety, by providing technical assistance and staffing to the boards responsible for development and adoption of building and fire prevention codes. The Division administers building and fire administration codes, manages the Virginia Building Code Training Academy, and administers the provisions of certification standards for building/fire officials and technical assistance.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 21, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Department of Housing and Community Development (Housing)** for the year ended June 30, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System and in the agency's Fiscal Management System and test compliance for the Statewide Single Audit for the year ended June 30, 2009. In support of these objectives, we reviewed the adequacy of Housing's internal controls, and tested compliance with applicable laws and regulations.

Audit Scope and Methodology

Housing's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Subrecipient monitoring procedures and controls
Federal grant revenues and expenses
Information Security

Our audit did not include the Urban Private Partnership Redevelopment Fund and Virginia Removal or Rehabilitation or Derelict Structures Fund, which will be covered by a separate audit that we will conduct at a later date. Our audit also did not include payroll expenses, as the Department of Accounts' Payroll Service Bureau provides administration of the agency's payroll processes, which are covered by a another audit we are conducting, which the results of that audit will be reported at a later date in a separate report.

We performed audit tests to determine whether Housing's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Housing's operations. We tested transactions and performed analytical procedures, including budgetary and trend analysis.

Conclusions

We found that the Virginia Department of Housing and Community Development properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and its internal Fiscal Management System. The Virginia Department of Housing and Community Development records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation."

Exit Conference and Report Distribution

We discussed this report with management on October 21, 2009. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS/alh



Timothy M. Kaine
Governor

Patrick O. Gottschalk
Secretary of
Commerce and Trade

COMMONWEALTH of VIRGINIA

William C. Shelton
Director

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

October 22, 2009

Mr. Walter Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for allowing DHCD the opportunity to include an Agency Response in the Audit Report for the Department of Housing and Community Development (DHCD) for the fiscal year ended June 30, 2009. The comments and recommendations are appreciated and are given the highest level of importance by this agency.

As discussed in the Exit Conference conducted on October 21, 2009, we generally concurred with the audit recommendations concerning the fiscal monitoring of sub-recipients participating in our federal grant programs. To correct this situation beginning in fiscal 2010, DHCD has allocated a portion of its stimulus funding to fund a position responsible for conducting fiscal reviews within its Division of Housing. This position is currently under recruitment. In addition, DHCD has reassigned the review and tracking of Single Audits within the Division of Housing. DHCD has also begun to implement critical processes and corresponding internal controls, and document policies and procedures to support these controls to ensure that it is conducting adequate fiscal monitoring for its entire federal grant program and that this monitoring is in accordance with and meets the expectations of federal funders and their monitoring and program guidelines. In summary, we have increased our monitoring activities for all grant programs.

Thank you for the opportunity to respond to these comments and recommendations. DHCD will ensure that staff continues to address these issues and maintain adequate sub-recipient monitoring processes for all of DHCD's grant programs.

Sincerely,

A handwritten signature in black ink that reads "Bill Shelton".

Bill Shelton

wcs\ljm

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

William C. Shelton, Director

Basil Gooden, Principal Deputy Director

BOARD OF HOUSING AND COMMUNITY DEVELOPMENT

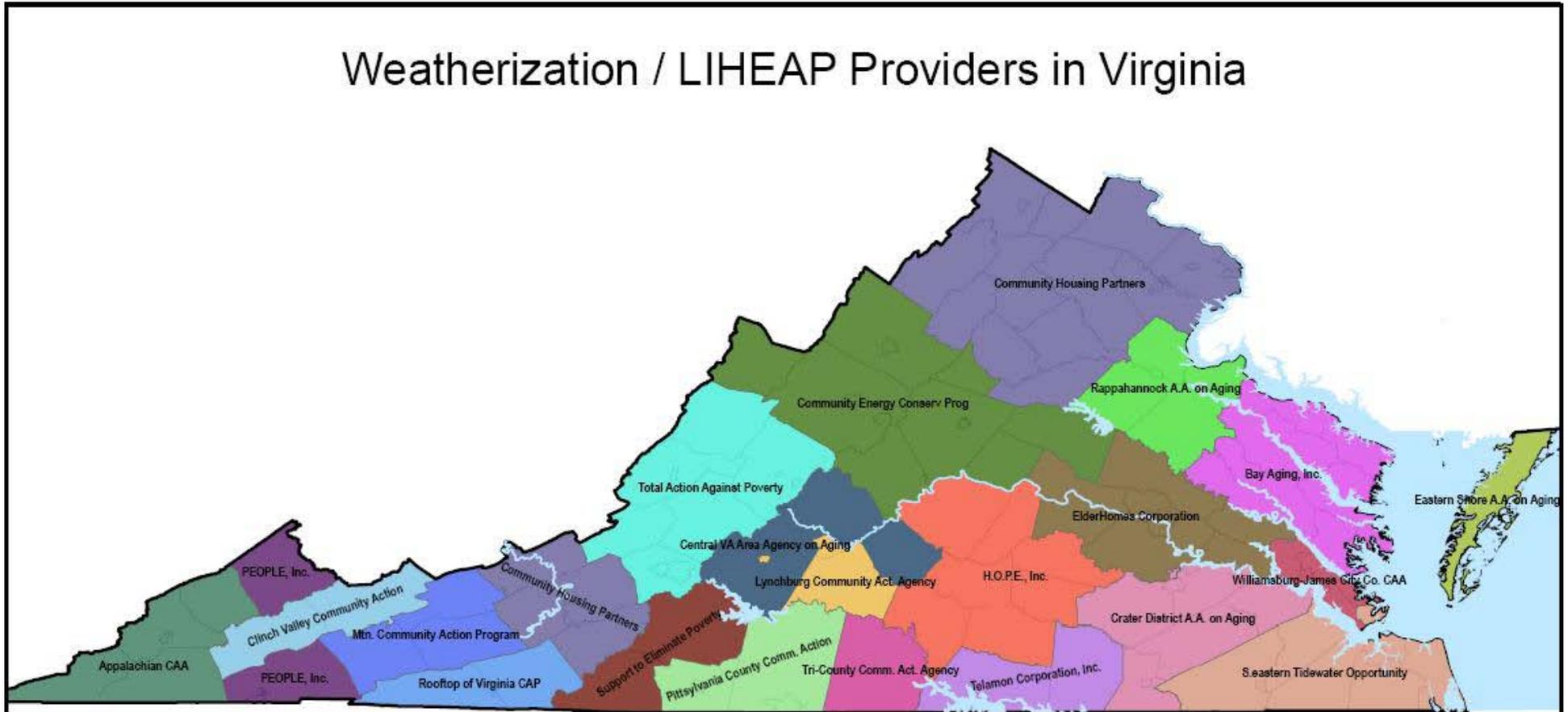
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Appendix A: Map of local Weatherization Providers



Source: www.dhcd.virginia.gov